



STATE OF WASHINGTON
DEPARTMENT OF HEALTH

April 16, 2015

CERTIFIED MAIL # 7009 0960 0000 5565 0505

Constance Kanter, CFO & VP
Seattle University
901- 12th Avenue
Seattle, Washington 98122

CN: 14-27-Reconsideration

Dear Ms. Kanter:

We have completed the reconsideration review of the Certificate of Need (CN) application submitted by Seattle University to construct a 36-bed Medicare and Medicaid certified nursing facility in Auburn. For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided Seattle University agrees to the following in its entirety.

Project Description:

Seattle University is approved to construct a 36-bed Medicare and Medicaid certified nursing facility in Auburn within King County using 36 beds banked under the full facility closure provisions of Revised Code of Washington 70.38.115(13)(b). The 36-bed skilled nursing facility upon licensure will be managed by Wesley Homes under a management services agreement. Seattle University will be the initial licensee of the 36-bed facility.

Conditions Attached To CN#1534 That Remain In Effect

1. Seattle University agrees with the project description as stated above. Seattle University further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Prior to providing services, Seattle University will provide copies of the listed adopted policies and agreements below for the department's review and approval.
 - Admission Agreement
 - Admission Policy
 - Grievance Policy
 - Updated Residents Handbook
 - Therapy services Agreement
 - Medical director credential number and Agreement

Copies of policies that have been adopted must be consistent with the draft policies provided in the application.

3. Seattle University will obtain Medicare and Medicaid provider numbers for Wesley Homes Lea Hill Health Center within 60 days of the licensure of the facility.
4. Wesley Homes Lea Hill Health Center must maintain its Medicare and Medicaid certification throughout the life of the facility, regardless of ownership.
5. Seattle University and any subsequent owners of the nursing home must not develop any policies or practices that discriminate against admission of patients based on payer source.

Approved Costs:

The approved capital expenditure for this project is \$9,849,000.

Please notify the Department of Health within 20 days of the date of this letter whether you accept the above project description, conditions, and capital costs for your project. If you accept these in entirety, your application will be approved and a Certificate of Need sent to you.

If you reject any of the above provision your application will be denied. The department will send you a letter denying your application and provide you information regarding your appeal rights.

Your written response should be sent to the Certificate of Need Program, at one of the following addresses.

Mailing Address:

Department of Health
Certificate of Need Program
Mail Stop 47852
Olympia, WA 98504-7852

Physical Address:

Department of Health
Certificate of Need Program
111 Israel Road SE
Tumwater, WA 98501

If you have any questions, or would like to arrange for a meeting to discuss our decision, please contact Janis Sigman with the Certificate of Need Program at (360) 236-2955.

Sincerely,



Steven M. Saxe, FACHE
Director, Office of Community Health Systems

Enclosure

**RECONSIDERATION EVALUATION DATED APRIL , 2015 FOR THE
CERTIFICATE OF NEED APPLICATION SUBMITTED BY SEATTLE
UNIVERSITY PROPOSING TO CONSTRUCT A 36 BED MEDICARE AND
MEDICAID CERTIFIED SKILLED NURSING FACILITY IN THE CITY OF
AUBURN WITHIN KING COUNTY**

APPLICANT DESCRIPTION

Seattle University is a private, non-profit corporation, incorporated in the state of Washington and is a registered Washington State charity. Seattle University was founded in 1891 and is dedicated to education. [Source: CN Historical files]

BACKGROUND INFORMATION

On July 22, 1988, Careage of Seattle was issued Certificate of Need (CN) #918-B approving the construction of a 139-bed nursing home on the Seattle University campus located at 1020 East Jefferson in Seattle [98122]. According to Department of Social and Health Services historical files, Bessie Burton Sullivan opened in November 1990 and was licensed under Seattle University¹ it remained in continuous operation at the same site until the facility closed in 2007. [Source: CN and Department of Social and Health Services historical files]

In 2006, Seattle University Administration recommended closure of Bessie Burton Sullivan to the Board of Trustees. The recommendation was based on the conclusion that the facility/space that housed the nursing home could be used for student housing, academic classrooms, science laboratories, faculty offices, and other purposes that were considered more central to the Seattle University educational mission. On March 15, 2007, Seattle University discharged its last resident from the 139-bed nursing home and banked all 139 nursing home beds under the full facility closure provisions of Revised Code of Washington (RCW) 70.38.115(13)(b). Under these regulations, the nursing home beds can be banked for up to eight years. The eight-year bed banking period for these 139 beds expired on March 15, 2015². [Source: Application Pages10-11 and CN historical files] Through a number of transactions similar to this application, the majority of the 139 beds have been un-banked. If this project is approved after reconsideration, Seattle University will have no remaining nursing home beds banked.

PROJECT DESCRIPTION

On October 6, 2014, CN #1534 was issued to Seattle University approving the construction of a 36-bed Medicare and Medicaid certified nursing facility in Auburn within King County using 36 beds banked under the full facility closure provisions of RCW 70.38.115(13)(b). Seattle University will be the initial licensee of the 36-bed facility. Wesley Homes will manage the nursing home's operation under a management services agreement. [Source: Application, Pages 10 and 11, Attachments A and B] After the initial licensing to Seattle University, Wesley Homes will become the licensee as well as the real property owner through a change of ownership with Seattle University.

¹ Historical files do not provide the date for change of ownership from Careage of Seattle to Seattle University. According to Department of Social and Health Services records, the nursing home license was issued to Seattle University upon opening.

² Prior to the expiration of this bed banking Seattle University applied for and received Certificate of Need #1534 on October 6, 2014. That certificate of need is the subject of this reconsideration evaluation.

Services to be provided include skilled nursing, physical and speech therapies, and related services to Medicare, Medicaid, and private pay patients. [Source: Application and Supplemental information received April 30, 2014, Attachment P]

The 36-bed Wesley Homes Lea Hill Health Center building will include two neighborhoods. One neighborhood will have 16 beds and the other will have 20 beds. Each of the neighborhoods will have dining and activity areas and a centrally located living room for residents use. Both of the two neighborhoods will have separate linen and meds rooms. Wesley Homes Lea Hill Health Center will have 34 private rooms and one two-bedroom unit. All rooms in the skilled nursing facility will have full bath with shower and tea kitchen. [Source: Application, Page 11] The capital expenditure associated with this project is \$10,020,000.

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to review under Revised Code of Washington 70.38.105(4)(a) and Washington Administrative Code 246-310-020(1) as the establishment of a new healthcare facility.

APPLICATION CHRONOLOGY

A chronological summary of the initial review and this reconsideration review is summarized below.

Initial Review

Action	
Letter of Intent Submitted	February 14, 2014
Application Submitted	March 18, 2014
Department's Pre-review Activities including	March 21, 2014
• DOH 1st Screening Letter	April 30, 2014
• Applicant's Screening Responses Received	May 21, 2014
• DOH 2nd Screening Letter	June 2, 2014
• Applicant's Screening Responses Received	
Beginning of Review	June 9, 2014
Public Comment Period	
• Public comments accepted through	July 21, 2014 ³
• Public hearing conducted	July 15, 2014
• Rebuttal Comments Received	August 5, 2014
Department's Anticipated Decision Date	September 19, 2014
Department's Actual Decision Date	September 25, 2014

³ At the public hearing conducted on July 15, 2014, the applicant requested one week extension to provide responses to questions asked at the hearing

Reconsideration Review

Request for Reconsideration Received	October 31, 2014
Department Grants Request for Reconsideration	December 19, 2014
Reconsideration Public Hearing Conducted in Olympia	February 4, 2015
Public Comment	
• Reconsideration Public Hearing/Public comments accepted through	February 4, 2015
• End of Public Comment	February 4, 2015
• Rebuttal Documents Received at Department	February 19, 2015
Department's Anticipated Decision Date	April 6, 2015
Department's Actual Decision Date	April 16, 2015

CRITERIA EVALUATION

The review for this reconsideration project is limited to only those issues that are addressed in the reconsideration request. For this project, the focus of the reconsideration is limited to the 'Financial Feasibility in WAC 246-310-220 and WAC 246-310-240 (Cost Containment)

AFFECTED PERSONS

Washington Administrative Code 246-310-010(2) defines "affected person as:

"...an "interested person" who:

- (a) Is located or resides in the applicant's health service area;*
- (b) Testified at a public hearing or submitted written evidence; and*
- (c) Requested in writing to be informed of the department's decision."*

Throughout the review of this application, Ms. Liz Tidyman, a resident in the planning area, met the requirements under WAC 246-310-010(2) to be recognized as an affected person.

BACKGROUND INFORMATION ON THE PROJECT

On October 6, 2014, the department issued CN #1534 approving the Certificate of Need application submitted by Seattle University to construct a 36-bed nursing home using beds banked under the full facility closure provisions of RCW 70.38.115(13)(b). On October 31, 2014, Ms. Liz Tidyman submitted a "Request for Reconsideration" related to the approval. The grounds for making the reconsideration request was that there has been a significant change in the information relied on by the department to make the decision approving Seattle University application. WAC 246-310-560(2)(b). On December 19, 2014, the Program granted the reconsideration request. A reconsideration hearing was conducted on February 4, 2015. This document is the evaluation of the reconsideration information.

SOURCE INFORMATION REVIEWED

Initial Review

- Seattle University's Certificate of Need application received on March 18, 2014
- Seattle University's supplemental information received April 30, 2014, and June 20, 2014
- Public comments and letters of support received by the department at the public hearing on July 15, 2014
- Responses to questions asked at the July 15, 2014 public hearing received on July 21, 2014
- Rebuttal comments from Seattle University received August 5, 2014
- Rebuttal comments from Ms. Tidyman received August 5, 2014

- Department of Social and Health Services, Office of Rates Management Medicaid rate projections for 36 beds received April 11, 2014
- Information obtained from Wesley Homes website [<http://www.wesleyhomes.org/>]
- Quality of Care data obtained from Department of Social and Health Services
- Centers for Medicare and Medicaid website nursing homes quality of care compliance history [www.medicare.gov/NursingHomeCompare/compare.search.html#]
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Washington State Secretary of State website at [<http://www.sos.wa.gov>]
- Wesley Homes website at [http://www.wesleyhomes.org/communities/leahill/skilled_lh]

Reconsideration Review

- Ms. Tidyman reconsideration request received October 31, 2014
- Seattle University/Wesley Homes response to reconsideration request received on November 19, 2014
- Comments submitted by Ms. Tidyman at the February 4, 2015 reconsideration hearing
- Comments submitted by Seattle University/Wesley Homes at the February 4, 2015, reconsideration hearing
- Rebuttal comments received from Seattle University/Wesley Homes on February 19, 2015

CONCLUSION

For the reasons stated in this reconsideration evaluation, the application submitted by Seattle University to construct a 36-bed Medicare and Medicaid certified skilled nursing facility in King County is consistent with applicable criteria of the Certificate of Need Program, provided Seattle University agrees to the following in its entirety.

Project Description:

Seattle University is approved to construct a 36-bed Medicare and Medicaid certified nursing facility in Auburn within King County using 36 beds banked under the full facility closure provisions of Revised Code of Washington 70.38.115(13)(b). The 36-bed skilled nursing facility upon licensure will be managed by Wesley Homes under a management services agreement. Seattle University will be the initial licensee of the 36-bed facility.

Conditions Attached To CN#1534 That Remain In Effect

1. Seattle University agrees with the project description as stated above. Seattle University further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Prior to providing services, Seattle University will provide copies of the listed adopted policies and agreements below for the department's review and approval.
 - Admission Agreement
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Copies of policies that have been adopted must be consistent with the draft policies provided in the application.

3. Seattle University will obtain Medicare and Medicaid provider numbers for Wesley Homes Lea Hill Health Center within 60 days of the licensure of the facility.
4. Wesley Homes Lea Hill Health Center must maintain its Medicare and Medicaid certification throughout the life of the facility, regardless of ownership.
5. Seattle University and any subsequent owners of the nursing home must not develop any policies or practices that discriminate against admission of patients based on payer source.

Approved Costs:

The approved capital expenditure for this project is \$9,849,000.

RECONSIDERATION EVALUATION

A. Need (WAC 246-310-210)

Based on the source information reviewed and the applicant's continued agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Seattle University has met the applicable need criteria in WAC 246-310-210(2).

- (2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

Initial Evaluation Summary

In its September 25, 2014, initial evaluation the department concluded that Seattle University/Wesley Homes project met the sub-criteria outlined above. [Source: Initial evaluation, pgs. 9-13]

Reconsideration Review

There was no additional information reviewed in this reconsideration that would change the department's initial conclusion therefore, **this sub-criterion remains met.**

B. Financial Feasibility (WAC 246-310-220)

Based on the source information reviewed and the applicant's continued agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Seattle University has met the financial feasibility criteria in WAC 246-310-220.

- (1) The immediate and long-range capital and operating costs of the project can be met.

Initial Evaluation Summary

Information provided in the application by Seattle University and Wesley Homes reviewed and relied upon by the department stated, "Occupancy estimate are based upon historical results in the Wesley Homes Des Moines facility. Unlike the majority of Medicare/Medicaid facilities in the planning area, the Lea Hill facility will be primarily (94%) private rooms, with all rooms having full bathrooms and other amenities". [Source: Application, Page 20]

Based upon the above statement, Wesley Homes provided its projected patient days and occupancy using its 146 rooms Wesley Homes Des Moines skilled nursing facility as the basis for its projections. Below are the projections

- Year 2015 assumes a total of 9,380 patient days and 71.4% occupancy
- Year 2016 assumes increases in patient days and occupancy from the opening year and projected 12,155 patients and 92.5% occupancy
- Year 2017 does not anticipate any further occupancy increases; rather the nursing home is expected to maintain its occupancy at 92.5%.

Using the assumptions stated above, Wesley Homes projected the revenue, expenses and net income for Wesley Homes Lea Hill. The projections are summarized in table 1 below. [Source: Initial evaluation, pgs. 14-17]

Table 1
Wesley Homes Lea Hill
Projected Years 2015 through 2017

	2015	2016	2017
Net Revenue	\$3,862,000	\$5,000,000	\$5,000,000
Total Expenses	\$3,853,000	\$4,366,000	\$4,334,000
Net Profit / (Loss)	\$9,000	\$634,000	\$666,000

Reconsideration Review

The department understands that Seattle University is the applicant to un-bank the 36 nursing home beds. Wesley Homes as the “landlord” will be financing the construction of the nursing home and at the time of the facility’s initial licensure will be the facility’s operator via a management agreement. However, after that initial licensing Wesley Homes will become the licensee as well as of the facility’s owner. Neither Seattle University nor Wesley Homes made any changes to the assumptions used to project the revenue or expenses summarized in the table above. While the department did not receive comments directly focused on this sub-criterion, comments were provided on changes to the source of the project’s financing not previously considered by the department. Changes in a project’s financing do have an impact on this sub-criterion because of its effect on the facility’s expenses. As discussed further regarding sub-criterion (3) below, the changes in source of financing will have an impact on the expenses of the nursing home. Despite that impact the department concludes the projected revenues and expenses of Wesley Homes Lea Hill can be met. **This sub-criterion remains met**

(2) The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.

Initial Evaluation Summary

In the application, the capital expenditure associated with the proposed 36-beds nursing home is \$10,020,000. A breakdown summary of the costs is restated in table 2. [Source: Initial evaluation, pg. 18]

Table 2
Wesley Homes Lea Hill
Capital Expenditure Breakdown

Item	Cost	% of Total
Construction Costs*	\$7,806,000	77.9%
Replacement Reserve	\$600,000	6.0%
Washington State Sales Tax and other	\$1,083,000	10.8%
Contingency	\$171,000	1.7%
Bed Acquisition	\$360,000	3.6%
Total Estimated Capital Costs	\$10,020,000	100.0%

* includes site supervision, inspection, consulting fees, financing, fixed and moveable equipment, and interest

Based on the above information, the department concluded that the costs of the project, including any construction costs, would probably not result in an unreasonable impact on the costs and charges for health services.

Reconsideration Review

The Department discovered during the course of this reconsideration that an error was made in the approved costs for the project. Included in the previously approved costs was \$171,000 in contingency funding. The Department does not include in a projects approved costs contingency allowances. This is because WAC 246-310-570 permits a \$50,000 or 12% (whichever is greater) increase in approved costs before an amendment is necessary. Therefore, if this project is approved on reconsideration, the approved capital costs would be \$9,849,000.

At the reconsideration hearing, Wesley Homes presented information that costs associated with this project have already increased \$421,434 more than what was presented in the application. An increase in costs during construction is not unusual. It is for that reason the Certificate of Need rules allow for a 12% increase in costs before the applicant needs to file an amendment application for a cost overrun. Even with the revised costs of \$9,849,000, the current reported cost of the project only represents a 4.28% increase in project costs. This is well within the 12% limit.

The additional information reviewed in this reconsideration does not change the department’s initial conclusion therefore, **this sub-criterion remains met.**

(3) The project can be appropriately financed.

WAC 246-310 does not contain specific source of financing criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how a project of this type and size should be financed. Therefore, using its experience and expertise the department compared the proposed project’s source of financing to those previously considered by the department.

The department granted reconsideration based on significant changes in factors or circumstances relied upon by the department in making its findings and decision related to

this sub-criterion. Included with the reconsideration request was the bond financing application by from Wesley Homes/Wesley Homes at Lea Hill to the Washington State Housing Finance Commission (WSHFC). This information was not considered by the department in making it initial decision.

Initial Evaluation Summary

The application stated, *“While Seattle University is the applicant, all costs of the project will be borne by Wesley Homes. In addition, to bank financing, Wesley Homes considered HUD financing and bond financing, and funding the project from its own reserves. The first two financing methods were rejected given the restrictions of HUD and the cost of issuance for bond financing with this size of a project. Funding of this project from Wesley Homes current reserves is doable, but would reduce Wesley’s number of days of cash. Currently, investment returns are greater than cost of borrowing money. Given the varying cost, complexity, and timeframe related to the options, it was determined that bank financing would be the most timely and cost effective”*. [Source: Application, page 35]

Information provided in the application stated Wesley Homes would use a variable rate bank loan, donor contributions and operating assets as funding sources. Repayment of the costs of the project incurred by Wesley Homes would come from rent paid by Seattle University. Wesley Homes provided a breakdown of the anticipated types of funding sources and the amount of financing for the project restated in the table 3.

**Table 3
Wesley Homes Lea Hill
Source of Financing**

Type	Amount
Commercial Loan	\$6,500,000
Bequest and Endorsements	\$2,000,000
Accumulated Reserves	\$1,083,000
Owners’ Equity (Existing Land etc.)	\$920,000
Loan from Parent Company (For replacement reserve)	\$600,000
Total	\$10,020,000

Based on the department evaluation of the above information, the department concluded the project’s source of financing was appropriate. **This sub-criterion was met.**

Reconsideration Review

The following is a summary of the information received by the department from Wesley Homes responding to information contained in the request for reconsideration, comments received during the February 4, 2015 reconsideration hearing, and rebuttal comments to information received at the reconsideration hearing. Additional comments were received that were not directly related to the Certificate of Need review criteria for this type of project and therefore will not be addressed in this evaluation.

Wesley Homes provided the following statements.

- The method of financing did not change significantly from the original application.
- Wesley raised \$2 million of bequests as planned
- Wesley was able to obtain a more favorable loan terms than anticipated

- The landlord’s financial stability is improved by Wesley securing better loan terms than the conservative estimates used in the application.
- The decision by Washington Federal to finance Wesley’s loan with tax exempt bonds issued through WSHFC rather than a flexible loan, has reduced annual debt service expense by nearly \$400,000 annually
- An increased credit line means that Wesley retains more than \$1,284,000 in cash and equity than it would otherwise have been required to contribute to the project thus Wesley’s debt ratio improved
- The improved debt ratio, in conjunction with the positive impact to Lea Hill bottom line from the reduced debt service expense, further enhances Wesley’s already strong and stable financial position.
- As noted on page 40 of the application, at the time of submittal Wesley was “*working with Washington Federal to extend the repayment period of the debt*”.
- Wesley received more favorable terms including tax-exempt financing, lower interest rate, a larger financing amount and a longer repayment period.
- Wesley opted to pursue tax-exempt bonds after the close of public comment. Therefore, according to WAC 246-310-100, Wesley’s decision was beyond the timeframe to have amended the project. The final action of purchasing tax-exempt bonds was on September 24, 2014 and the first opportunity for Wesley to provide notice to the department is through quarterly progress report that Wesley submitted on January 31, 2015.

In the materials submitted at the reconsideration hearing Wesley admits the method of financing the nursing home project changed from that considered by the department in making its decision. Wesley states it opted to pursue tax-exempt bonds after the close of public comment. Therefore, according to WAC 246-310-100, Wesley’s decision was beyond the timeframe to have amended the project. The final action of purchasing tax-exempt bonds was on September 24, 2014 and the first opportunity for Wesley to provide notice to the department is through quarterly progress report that Wesley submitted on January 31, 2015. According to information the department obtained from the WSHFC’s website, the bond financing process takes approximately two to four months to complete.

The department compared the timelines related to this project and information known about the WSHFC application to determine whether an amended application could have been submitted prior to the department making its initial decision. Table 4 presents a comparison of the known events in the two review processes.

Table 4
Comparison of Certificate of Need Review
Timeline and WSHFC Bond Financing Request

Certificate of Need Application		Timing of WSHFC Bond Financing Request	
Beginning of Review	June 9, 2014		
Public Hearing	July 15, 2014		
Public Hearing extended to allow time for SU to submit responses to questions at hearing	July 21, 2014		
		Decision to pursue Bond	Sometime prior

Certificate of Need Application		Timing of WSHFC Bond Financing Request	
		Financing	to July 24, 2014
		Date WSHFC bond financing application signed by Wesley Homes' CEO	July 24, 2014
Rebuttal Comments Due	August 5, 2014		
<p>End of Public Comment Period</p> <p>WAC 246-310-160(1)(a) <u>The public comment period shall be limited to forty-five days.</u> The first thirty-five days of the public comment period shall be reserved for receiving public comments and conducting a public hearing, if requested. The remaining ten days shall be reserved for the applicant to provide rebuttal statements to written or oral statements submitted during the first thirty-five day period. Any affected person shall also be provided the opportunity to provide rebuttal statements to written or oral statements submitted during the first thirty-five day period.</p>	August 5, 2014		
<p>Last day to amend/change application:</p> <p>WAC 246-310-100(5) An application for expedited or regular review may be changed during the screening period <u>or the public comment period</u></p>	August 5, 2014		
Start of Ex parte period	August 6, 2014		
		<p>WSHFC Public Hearing on Wesley Homes' bond financing request OID #14-88A</p> <p>"...this is a Commission hearing for the proposed issuance of nonprofit revenue bonds to refund existing bonds issued by the Commission and also to finance the construction of a 36-bed nursing facility to be located on the Lea Hill campus..." Source: Washington State Housing Finance Commission</p>	August 28, 2014

Certificate of Need Application		Timing of WSHFC Bond Financing Request	
		Minutes-August 28, 2014	
Decision Due	September 19,2014		
		Approval by WSHFC on Wesley Homes' bond financing request: Resolution No. 14-98 "...this is a resolution approving the issuance of bonds by the Commission in the principal amount of not to exceed \$10,000,000 to finance the construction of a 36-bed nursing facility..." Source: Washington State Housing Finance Commission Work Session Minutes-September 25, 2014	September 25, 2014
Decision Made	October 6, 2014		

Based on its evaluation the department concludes Wesley Homes's argument that it opted to pursue tax-exempt bonds after the close of public comment and therefore the first opportunity to provide notice to the department through its quarterly progress report submitted on January 31, 2015 is without merit. Wesley's focus on when the WSHFC made its final decision approving the bond financing is misplaced. When the WSHFC made a final decision on Wesley's application is not the relevant date, it's when Wesley made the decision to pursue the bond financing. Under WAC 246-310-160(1)(a) the end of the public comment period was August 5, 2014 and the last day for Wesley Homes' application to be amended. The WSHFC bond financing application was signed by Wesley's CEO on July 24, 2014. Clearly the decision had been made prior to the development of that WSHFC application to pursue bond financing which was before the end of the public comment period on the certificate of need application. Therefore the application should have been amended before the department made its initial decision.

Based on the facts in the particular review the department is using its discretion to proceed with its review of the changes in financing for this project rather than deny it. Therefore the remainder of evaluation of this sub-criterion will focus on the changes Wesley Homes made.

Table 5 is a summary of the initial sources of funding compared to the actual sources of funding.

**Table 5
Comparison of Funding Sources**

Initial Funding Sources		Actual Funding Sources	
Source	Amount	Source	Amount
Public Campaign	N/A	Public Campaign	N/A
Bond Issue	N/A	Bond Issue	\$8,205,434
Commercial Loan	\$6,500,000	Commercial Loan	N/A
Bequests & Endorsements	\$2,000,000	Bequests & Endorsements	\$2,000,000
Owner's Equity	\$920,000	Owner's Equity	\$236,000
Loan from Parent Company	\$600,000	Loan from Parent Company	N/A
Total	\$10,020,000	Total	\$10,441,434

Wesley Homes stated that the decision to refinance its loan with tax-exempt bond issued through Washington State Housing Finance Commission (WSHFC) reduced its annual debt service expense by nearly \$400,000 annually. The improved debt ratio, in conjunction with the positive impact to Lea Hill bottom line from the reduced debt service expense, further enhances Wesley’s already strong and stable financial position.

The department compared the basic financial ratios contained in the initial application with those presented at the reconsideration hearing. Table 6 shows that comparison.

**Table 6
Comparison of Financial Ratios**

Year	Current Ratio		Assets Financed by Liabilities		Total Oper. Expense to Total Oper. Revenue		Debt Service Coverage	
	Initial	Revised	Initial	Revised	Initial	Revised	Initial	Revised
Yr 1	0.84	2.36	0.83	0.74	0.88	0.88	0.49	1.53
Yr 2	0.81	3.05	0.78	0.72	0.77	0.77	1.23	2.74
Yr 3	0.75	3.70	0.73	0.70	0.78	0.78	1.08	2.74
Target	1.8-2.5		0.6-0.8		1.0		1.5-2.0	

The department agrees that changes in the sources of financing for the project have improved the financial position of Wesley Homes. This change should also have a positive impact on the operating expenses of the facility as well. Use of tax exempt bond financing is a reasonable method of funding a nursing home project. Therefore the department concludes that despite the change in the application’s source of financing rationale, **this sub-criterion is met.**

C. Structure and Process (Quality) of Care (WAC 246-310-230)

Based on the source information reviewed and the applicant’s continued agreement to the conditions identified in the “Conclusion” section of this evaluation, the department determines that Seattle University continues to meet the structure and process of care criteria in WAC 246-310-230(1),(2),(3), (4), and (5).

- (1) A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.
- (2) The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.
- (3) There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.
- (4) The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.

- (5) *There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.*

Initial Evaluation Summary

In its September 25, 2014, initial evaluation the department concluded that Seattle University/Wesley Homes project met these five sub-criteria outlined above. [Source: Initial evaluation, pgs. 19- 24]

Reconsideration Review

There was no additional information reviewed in this reconsideration changes the department's initial conclusion. **These sub-criterion remain met**

D. Cost Containment (WAC 246-310-240)

Based on the source information reviewed and the applicant's continued agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Seattle University continues to meet the cost containment criteria in WAC 246-310-240.

- (1) *Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.*

Initial Evaluation Summary

In its September 25, 2014, initial evaluation the department concluded that Seattle University/Wesley Homes project met this sub-criterion outlined above. [Source: Initial evaluation, pgs. 24- 25]

Reconsideration Review

There was no additional information reviewed in this reconsideration changes the department's initial conclusion. **These sub-criterion remain met**

- (2) *In the case of a project involving construction:*
(a) *The costs, scope, and methods of construction and energy conservation are reasonable; and*
(b) *The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.*

These sub-criteria are evaluated within the financial feasibility criterion under WAC 246-310-220(2) **these sub-criteria remains met.**

- (3) *The project will involve appropriate improvements or innovations in the financing and delivery of health services which foster cost containment and which promote quality assurance and cost effectiveness.*

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2) **this sub-criterion remains met.**